Strawbridge & Clothier

ANNUAL REPORT 1975

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CORPORATION FILE

Annual Report

Strawbridge & Clothier

Fiscal year 1975 ended January 31, 1976

Board of Directors

G. STOCKTON STRAWBRIDGE
Chairman of the Board and Chief Executive Officer

RANDALL E. COPELAND
President and General Manager

FRANK R. VEALE
Retired

WINTHROP deV. SCHWAB
Executive Vice President and Treasurer

JAMES M. GASSAWAY
Vice President for Planning and Development

FRANCIS R. STRAWBRIDGE, III
Vice President and Secretary

PETER S. STRAWBRIDGE
Vice President and General Manager Clover Division

ROBERT E. STRAWBRIDGE, III
Assistant Vice President, Morgan Guaranty Trust Company of New York

DAVID W. STRAWBRIDGE
Operating Superintendent

ISAAC H. CLOTHIER, IV
Attorney, Partner, Dechert Price & Rhoads

STEVEN L. STRAWBRIDGE
Manager of Exton Store

Honorary Directors

J. CLAYTON STRAWBRIDGE
ROBERT E. STRAWBRIDGE, Jr.
DWIGHT G. PERKINS

Officers

G. STOCKTON STRAWBRIDGE . . *Chairman of the Board and Chief Executive Officer*
RANDALL E. COPELAND . . . . . *President and General Manager*
WINTHROP deV. SCHWAB . . . . . *Executive Vice President and Treasurer*
FRANCIS R. STRAWBRIDGE, III . . . . . *Vice President and Secretary*
JAMES M. GASSAWAY . . . . . *Vice President for Planning and Development*
GEORGE L. CULLEN . . . . . *Vice President for Personnel*
MARK FISHER . . . . . *Vice President for Publicity*
KENNETH J. BROWNELL . . . . . *Vice President and General Merchandise Manager*
GEORGE L. COMPTON . . . . . *Vice President and General Merchandise Manager*
RICHARD H. HALL . . . . . *Vice President and Controller*
JOHN J. LEAHY . . . . . *Vice President and General Superintendent*
PETER S. STRAWBRIDGE . . . . . *Vice President and General Manager Clover Division*

Strawbridge & Clothier Board of Directors

Seated from left to right:
Steven L. Strawbridge
James M. Gassaway, II
Frank R. Veale
Randall E. Copeland
G. Stockton Strawbridge
Francis R. Strawbridge, III
Winthrop deV. Schwab
Robert E. Strawbridge, III
David W. Strawbridge
Isaac H. Clothier, IV
Peter S. Strawbridge (not present)

To our shareholders

1975 was a record breaking year for the company in terms of sales and earnings. Total sales were $239,828,887, an increase of 5.9% over 1974 sales of $226,437,935. All of our stores, including Philadelphia, achieved highly satisfactory sales results, particularly gratifying in several areas where new competition has recently developed.

Earnings were $8,820,125, up 46.3% over the 1974 figure of $6,031,010. Earnings per share on the common stock were $5.68 this year as against $3.84 last year, both amounts calculated on the number of shares outstanding on January 31, 1976. Significant improvement in general economic conditions, a better control of inventories and expenses, together with very substantially improved operating results in the Clover Division made this excellent showing possible.

At its meeting on March 31, 1976, the Board of Directors declared a 7% stock dividend on the common stock payable May 18 to shareholders of record on April 13. A 5% stock dividend was paid on April 10 last year. At this meeting the Board also raised the cash dividend on the common stock to an indicated annual rate of $1.30 per share from the present $1.20. The quarterly cash dividend payable to shareholders on May 1 will be $.325 compared to $.30 last year.

A ten year history of important operating results and financial data appears on pages 22 and 23. An analysis of the significant changes in operating results that have occurred in the last two years is on page 24.

In last year's Annual Report, mention was made of our inability to secure the necessary approvals from the local authorities to proceed with our plans for the development of two regional shopping centers, one in Hopewell Township, Mercer County, New Jersey, and the other in Newark, New Castle County, Delaware. Together with The Rouse Company, our developer association of long standing, we continue to work with the public bodies at both locations, hoping that new negotiations bring a favorable outcome.

Our six Clover Division stores, as noted previously, have enjoyed dramatic sales increases and we are confident that this Division will play a significant part in our company's continued growth.

On February 20th announcement was made of our seventh Clover unit, this one to occupy a vacated W. T. Grant store in Westmont, Camden County, New Jersey. The building, only four years old and in first class physical condition, is the major store in the highly successful Westmont Plaza Shopping Center. The Clover store there will be comparable in size and configuration to our other Clover units. We plan for an opening in the late fall of this year after making improvements to the building and installing fixtures.

With the general strengthening and much improved outlook for the economy, we are actively in the market seeking additional real estate opportunities throughout our three state trading area for both the Department Store and Clover Divisions.

Toward the end of the year we will have completed an extensive physical improvement program in our Philadelphia Store. Floor by floor over recent years we have modernized and made contemporary through departmental realignments, fixturing, graphics and lighting, all of our selling floors. Later this fall we will complete two of our most outstanding modernizations—the entire main floor and budget store—making them truly among the finest in the country.

Until the phase of Market Street East improvement plan in the immediate vicinity of our Philadelphia Store is completed approximately two years hence, this construction work will continue to disrupt pedestrian and vehicular traffic on Market Street and affect negatively our business opportunity at 8th and Market Streets. We are confident that the present inconveniences to customers are an unavoidable

forerunner to great future benefits to be derived from the extended subway station platform, the new air-conditioned mall along the concourse level front of our store and The Rouse Company's Gallery consisting of 200,000 square feet of small stores on four levels between Strawbridge & Clothier and the new Gimbel Store. It is particularly noteworthy and especially gratifying that in spite of the confusion and inconvenience to which our customers are being subjected, the Philadelphia Store experienced another year of increased sales volume.

You have probably heard or read reports of the Consent Agreement recently entered into between the Federal Trade Commission and Strawbridge & Clothier relative to the development and operation of shopping centers. The FTC complaint against our company continues a course of action taken by the Commission staff against shopping center developers and major tenants to prohibit certain generally accepted agreements and practices which were designed to insure the quality and character of the shopping center. While there had been no existing law governing these practices, the FTC within the past few years has taken the position that certain of these practices might result in a restraint of competition and has undertaken to negotiate a series of consent agreements with leading shopping center developers and department stores designed to prevent possible exercise of such controls. Contrary to one newspaper headline, these controls did not involve participation by Strawbridge & Clothier in any agreements to fix or raise the price of merchandise.

It should be further noted that Strawbridge & Clothier's Consent Agreement is not an admission that it has violated the law, and its willingness to enter into the agreement which has been approved by the FTC conforms to the developing pattern in the shopping center industry. All our company's policies and actions in its continued expansion program have been intended to bring to the public quality shopping facilities and opportunities consistent with our own high standards, and, of course—to the best of our knowledge—in a legally permissible way.

At its regular meeting on January 28, 1976, the Board of Directors amended the By-Laws of the company to provide for classification of the company's eleven Directors into three classes as nearly equal in number as possible, with each class being elected to serve for a term of three years and with the term of office of one class to expire each year. In 1976 eleven Directors are to be elected, three Directors for a three year term, four Directors for a two year term, and four Directors for a one year term. At each subsequent Annual Meeting, the shareholders will elect the number of Directors in the class whose term then expires.

On January 31, 1976, Frank R. Veale, Executive Vice President for Operations and Personnel, retired after forty-two years of service to Strawbridge & Clothier. Mr. Veale came to the company in 1932 after graduation from Lehigh University and from the University of Pennsylvania's Wharton School of Business Administration. His retail career was interrupted during World War II when he served with great distinction in the United States Army from 1941 to 1946 and from which he was separated with the rank of Colonel. His outstanding accomplishments on behalf of the Company as Advertising Director, Sales Promotion Manager, Vice President in Charge of Operations and Personnel, and finally as Executive Vice President, contributed greatly to the growth and development of our business. We are indeed fortunate that we will continue to benefit by his sound judgment, keen insight and broad experience through his membership on the Board of Directors.

We are delighted to announce that effective February 1st, Winthrop deV. Schwab assumed additional responsibilities for the Operations

and Personnel Divisions. Mr. Schwab will continue as Executive Vice President and Treasurer.

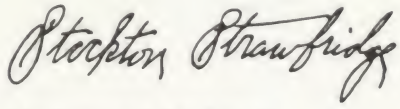
Surely 1976 will be in Philadelphia a year to be long remembered with much of the action, excitement, public activity and attention focussed on or immediately adjacent to our 8th and Market Street location. By way of seeking a strong identification with the Bicentennial, all of our promotional activities referring to the Philadelphia Store in print will describe us as "The Gateway to the Olde City", a particularly appropriate phrase in consideration of our physical situation on the threshold of the city's historical area. Estimates relative to the influx of visitors during the year have varied widely with the traffic expected to peak during the months of May through September. All of our stores, but with special emphasis on the Philadelphia Store, will be "dressed" appropriately for the occasion, with the Bicentennial theme central to our storewide merchandising, advertising and display presentation. An interesting calendar of Special Events has been scheduled for our auditorium, and elsewhere as appropriate throughout the store, with the objective of capturing the interest and attention of both our resident and visiting customer friends. Information about the store and Philadelphia's historical areas will be available at appropriate locations throughout the store. As a consequence, notwithstanding the difficult physical circumstances referred to earlier in this letter, which to some extent handicap our efforts, the company will be fully prepared and programmed to pay tribute and honor to the nation on the occasion of its 200th birthday.

With further respect to this historic year 1976, it is interesting to contemplate the fact that the United States of America was only 86 years old when Justus Clayton Strawbridge opened his little store for business in 1862 on our present location. You will note that the cover of our Annual Report, a photograph of our Jefferson Memorial Tablet at the main Market Street entrance, invites attention to the fact that this was the location of our first Secretary of State's office. Strawbridge & Clothier has been a part of our nation's 200 year history for 114 of those years and we take great pride in preserving the traditions of the past while seeking to retain our position as a leading, useful and productive corporate citizen for the future.

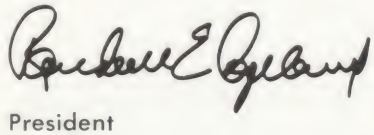
We are proud of our accomplishments in the world of retailing and of the leadership position which our company has earned. But perhaps our greatest satisfaction is derived from knowledge of the fact that a truly superior organization has been developed, thus insuring a continuity of the high performance standards that have characterized the operation of our business over the years.

On behalf of all of our Officers and Directors we wish to express our appreciation to every member of our Store Family for their invaluable contribution to the progress of the company. Their record of outstanding service and loyal support continues as Strawbridge & Clothier's greatest asset in the conduct of its business.

Respectfully,



Chairman of the Board



President

April 28, 1976

Stockton Strawbridge, Chairman and Randall Copeland, President, standing alongside the Keystone helicopter on the Strawbridge & Clothier Philadelphia store heliport. Strawbridge & Clothier was one of Keystone Helicopter's first clients and since the late 1950s has been using their equipment with highly satisfactory results, particularly in the area of real estate site selection relative to the Company's continuing expansion program.

Winthrop deV. Schwab
Executive Vice President
and Treasurer

James M. Gassaway
Vice President for Planning
and Development

Department Store Division Management

Left to right:

GEORGE L. CULLEN . . . . . Vice President for Personnel
RICHARD H. HALL . . . . . Vice President and Controller
JOHN J. LEAHY. . . . . Vice President and General Superintendent

Left to right:

GEORGE L. COMPTON. . . . . Vice President and General Merchandise Manager
MARK FISHER . . . . . Vice President for Publicity
KENNETH J. BROWNELL. . . . Vice President and General Merchandise Manager

Clover
Division Management

Left to right:
Warren W. White . . . . . Vice President and General Merchandise Manager
William A. Rittmayer . . . . Vice President and Controller
G. Leonard Shea, Vice President and Personnel Director
Peter S. Strawbridge, Vice President and General Manager

Clover, discount division of Strawbridge & Clothier, currently operates six stores, three in New Jersey and three in Pennsylvania. Clover offers quick, convenient, self-service shopping in a pleasant atmosphere. A seventh Clover store will be opened in Westmont, Camden County, New Jersey in the fall of 1976.

Women's ready-to-wear, Center Square Clover Store

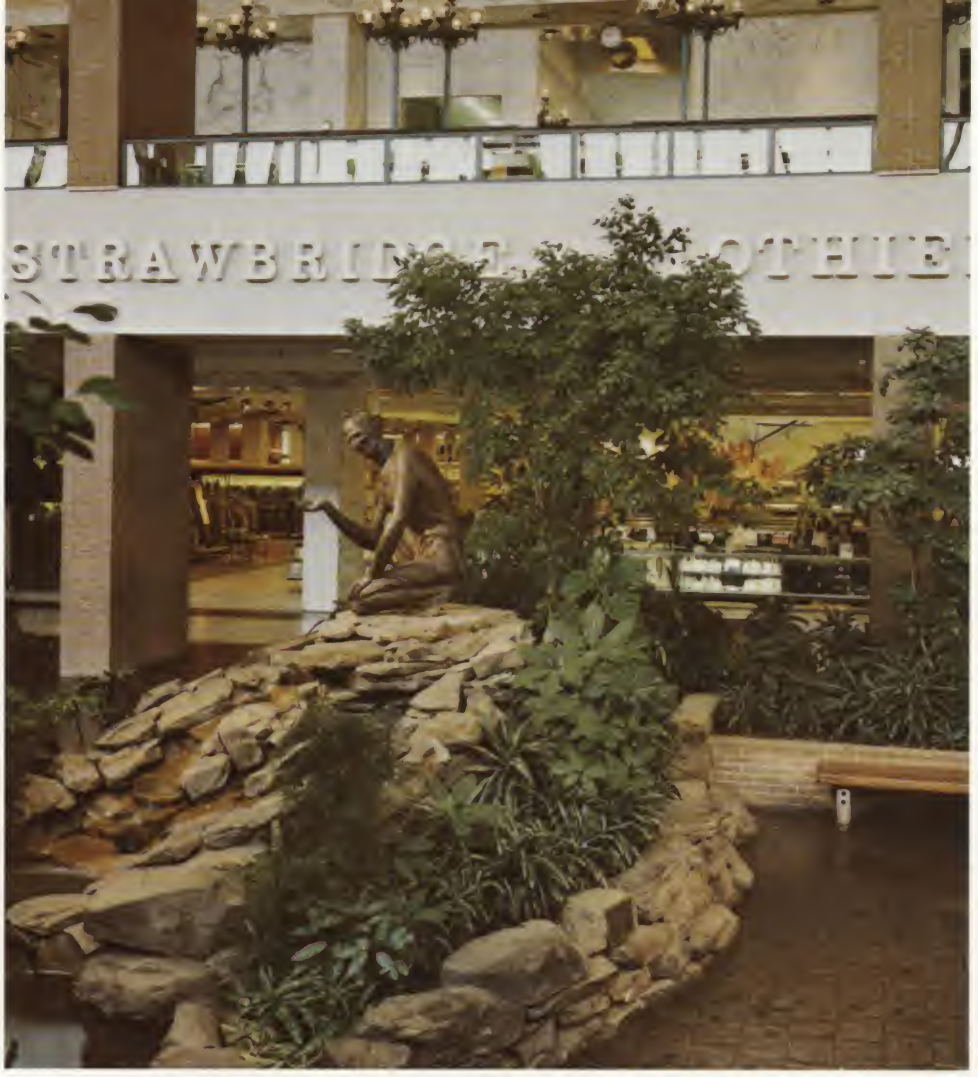
Hardware Dept. of Center Square Clover Store

Exterior of Marlton Clover Store

From modest beginnings in 1862, as pictured in the insert of Justus C. Strawbridge & Co., the magnificent building of today has emerged on the same location. Containing approximately one million square feet of total gross area, its fourteen floors tower as a landmark in Market Street East at the "Gateway to the Olde City".

Leading directly to our Philadelphia Interior Decorating Department is a corridor of superb Collector items for the home.

Our bustling Philadelphia lobby boutique with fads and fashion irresistibly beckons shoppers like a foreign bazaar.



Neshaminy Branch Store

Unique Branch Store Malls

Henry Mitchell's life-size bronze Lenni Lenape Indian is a distinctive feature in the court outside the inviting entrance to our Neshaminy Mall Branch Store.

A Christmas tree of poinsettias adorns the fountain court at Plymouth Meeting where two levels of mall shops open directly into Strawbridge & Clothier's Branch Store.

Plymouth Meeting Branch Store

Consolidated statements of operations

	Year Ended	
	January 31 1976	February 1 1975
Net sales, including leased department sales	$239,828,887	$226,437,935
Other income, net of other deductions	77,709	81,086
	239,906,596	226,519,021
Deduct:		
Cost of sales, including merchandise, alteration, occupancy, and buying costs, exclusive of depreciation—Notes A and C	171,726,802	165,775,450
Selling, publicity, delivery, and administrative expenses	41,633,975	39,614,179
Depreciation—Note A	4,165,488	3,997,918
Pension cost—Note E	2,174,386	2,098,974
Interest—Note D	2,061,820	2,837,490
	221,762,471	214,324,011
EARNINGS BEFORE INCOME TAXES	18,144,125	12,195,010
Income taxes—including taxes deferred in 1975—$2,140,000; 1974—$867,000—Note G:		
Federal	7,863,000	5,174,000
State	1,461,000	990,000
	9,324,000	6,164,000
NET EARNINGS	$ 8,820,125	$ 6,031,010
Net earnings per share of Common Stock (based on Common Stock outstanding at January 31, 1976, after recognition of the dividend requirements on Preferred Stock)—Note F	$ 5.68	$ 3.84

See notes to consolidated financial statements.

Consolidated balance sheets

Assets

	January 31 1976	February 1 1975
CURRENT ASSETS		
Cash, including certificates of deposit of $5,000,000 in 1976	$ 7,563,128	$ 2,715,353
Accounts receivable:		
Customers:		
Regular charge accounts	8,276,789	8,919,426
Deferred payment accounts	7,366,247	7,433,399
Flexible charge accounts—Notes A and B	31,586,329	22,866,450
Suppliers and sundry	1,290,317	1,689,306
	48,519,682	40,908,581
Allowance for loss	(1,550,000)	(1,400,000)
	46,969,682	39,508,581
Merchandise inventories—Notes A and C	27,631,494	26,716,398
Notes receivable due within one year	280,000	—
Prepaid expenses, supply inventories, and sundry	3,817,126	2,020,131
TOTAL CURRENT ASSETS	86,261,430	70,960,463
OTHER ASSETS		
Notes receivable, secured by mortgages—receivable after one year	452,263	732,263
Cash on deposit with trustee for redemption of $5 Cumulative Preferred Stock—Note F	191,144	191,144
Deferred charges	230,843	321,260
Sundry investments and other	146,525	186,333
	1,020,775	1,431,000
PROPERTY, FIXTURES, AND EQUIPMENT— ON THE BASIS OF COST		
Land	10,013,977	10,013,977
Buildings and improvements	48,310,117	47,689,984
Store fixtures, furniture, and equipment	48,726,785	46,498,412
Allowance for depreciation (deduction)	(49,663,562)	(45,510,664)
	57,387,317	58,691,709
Construction in progress	8,426	84,775
	57,395,743	58,776,484
	$144,677,948	$131,167,947

Consolidated balance sheets

Liabilities and stockholders' equity

	January 31 1976	February 1 1975
CURRENT LIABILITIES		
Accounts payable	$ 13,046,817	$ 10,228,663
Accrued accounts	1,699,795	1,785,363
Payroll taxes and amounts withheld from employees	646,499	769,641
Federal, state, and local taxes	4,302,667	478,518
Deferred taxes on income—Notes A and G	6,107,556	4,639,121
Long-term debt due within one year	1,205,112	1,190,412
TOTAL CURRENT LIABILITIES	27,008,446	19,091,718
LONG-TERM DEBT—due after one year—Note D	21,303,326	23,070,940
OTHER LIABILITIES		
Future income taxes—Note G	4,400,598	3,729,033
Pensions—Note E	3,372,869	3,381,355
Self-insurance claims and other	329,525	228,327
	8,102,992	7,338,715
TOTAL LIABILITIES	56,414,764	49,501,373
STOCKHOLDERS' EQUITY		
Capital Stock—Note F:		
$5 Cumulative Preferred Stock, par value $100 per share, redeemable at $105 per share—at January 31, 1976, authorized 39,606 shares; outstanding 36,149 shares, after deducting 3,457 shares in treasury (outstanding at February 1, 1975, 38,629 shares)	3,614,900	3,862,900
Common Stock, par value $5 per share—authorized 2,000,000 shares; outstanding 1,520,204 shares, (outstanding at February 1, 1975, 1,447,814 shares)	7,601,020	7,239,070
Capital in addition to par value of shares	26,993,624	25,947,218
Earnings retained for use in the business—Note D	50,053,640	44,617,386
TOTAL STOCKHOLDERS' EQUITY	88,263,184	81,666,574
COMMITMENTS—Note H		
	$144,677,948	$131,167,947

See notes to consolidated financial statements.

Consolidated statements of stockholders' equity

	Year Ended	
	January 31 1976	February 1 1975
CAPITAL STOCK		
Preferred Stock:		
Balance at beginning of year	$ 3,862,900	$ 4,136,400
Less shares acquired for treasury during year	248,000	273,500
	3,614,900	3,862,900
Common Stock:		
Balance at beginning of year	7,239,070	6,894,355
Stock dividend	361,950	344,715
	7,601,020	7,239,070
CAPITAL IN ADDITION TO PAR VALUE OF SHARES		
Balance at beginning of year	25,947,218	24,125,005
Excess of amount charged against earnings retained for use in the business over the par value of Common Stock issued as stock dividend	1,011,080	1,792,518
Discount on acquisition of Preferred Stock	35,326	29,695
	26,993,624	25,947,218
EARNINGS RETAINED FOR USE IN THE BUSINESS		
Balance at beginning of year	44,617,386	42,657,550
Net earnings for the year	8,820,125	6,031,010
	53,437,511	48,688,560
Less:		
Cash dividends on Preferred Stock—$5 per share	184,616	196,943
Cash dividends on Common Stock—$1.20 per share	1,823,845	1,736,998
Stock dividends declared February 26, 1975, and February 27, 1974—five shares for each 100 shares outstanding:		
Paid April 10, 1975, and April 11, 1974, 72,390 shares and 68,943 shares on the basis of $19 and $31, respectively, per share	1,375,410	2,137,233
	3,383,871	4,071,174
	50,053,640	44,617,386
TOTAL STOCKHOLDERS' EQUITY	$88,263,184	$81,666,574

See notes to consolidated financial statements.

Consolidated statements of changes in financial position

	Year Ended	
	January 31 1976	February 1 1975
SOURCE OF FUNDS		
Net earnings	$ 8,820,125	$ 6,031,010
Add expenses not requiring outlay of funds:		
Provision for depreciation	4,165,488	3,997,918
Provision for deferred income taxes, pensions, and self-insurance	3,223,810	2,798,382
TOTAL FUNDS PROVIDED FROM OPERATIONS	16,209,423	12,827,310
Decrease in other assets	407,845	138,322
	$16,617,268	$12,965,632
APPLICATION OF FUNDS		
Cash dividends paid	$ 2,008,461	$ 1,933,941
Purchase of Preferred Stock	212,674	243,805
Acquisition of property, fixtures, and equipment	2,784,747	2,912,329
Reduction of long-term debt	1,767,614	1,190,411
Amounts charged against other liabilities	2,459,533	2,324,253
Increase in working capital	7,384,239	4,360,893
	$16,617,268	$12,965,632
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash and certificates of deposit	$ 4,847,775	$ 110,399
Accounts receivable	7,461,101	3,155,939
Inventories	915,096	(1,792,480)
Prepaid expenses and other current assets	2,076,995	99,568
	15,300,967	1,573,426
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	2,732,586	(1,097,104)
Federal, state, and local taxes	3,824,149	(2,034,572)
Amounts withheld from employees	(123,142)	(12,461)
Deferred taxes on income	1,468,435	342,838
Current portion of long-term debt	14,700	13,832
	7,916,728	(2,787,467)
INCREASE IN WORKING CAPITAL	$ 7,384,239	$ 4,360,893

See notes to consolidated financial statements.

Notes to consolidated financial statements

Years ended January 31, 1976 and February 1, 1975

Note A—Summary of Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned real estate subsidiaries. All intercompany transactions have been eliminated.

Inventories: Inventories of merchandise on hand and in transit are priced at cost on the last-in, first-out method, determined under principles and by the use of published indices of price changes approved by the Commissioner of Internal Revenue with respect to retail stores generally.

Store Preopening Costs: When applicable, costs prior to the opening of stores are charged to expense in the year incurred.

Property, Fixtures, and Equipment: Property, fixtures, and equipment are recorded at cost. When incurred, interest on indebtedness to finance construction of new store buildings is charged to construction in progress, as the Company considers such interest as part of the cost of such construction. The applicable cost is being depreciated by the straight-line method over the estimated useful lives of the assets.

Installment Sales: Income on deferred payment and flexible charge sales is recognized for financial purposes in the year of sale. Deferred taxes on installment sales gross profit are included in current liabilities. Finance charges relating to such sales are applied as a reduction of administrative expenses.

Note B—Accounts Receivable

The flexible charge accounts receivable at February 1, 1975, include equity of $474,110 in accounts aggregating $4,741,098 sold without recourse to bank.

Note C—Inventories

If the first-in, first-out (FIFO) method of inventory accounting had been used by the Company, inventories would have been $11,400,000 and $10,600,000 higher than reported at January 31, 1976, and February 1, 1975, respectively.

Note D—Long-Term Debt—due after one year

Term and mortgage notes with interest at 3¾% to 9⅞% payable to banks, institutional investors, and others are as follows:

	January 31 1976	February 1 1975
Term notes (4¾% and 5%) maturing $350,000 per year through 1979; $500,000 in 1980; $150,000 per year through 1983; $170,000 in 1984	$ 2,170,000	$ 2,520,000
Term notes (9⅞%) maturing $562,500 per year through 1989; $437,500 in 1990	7,750,000	8,875,000
Mortgage notes payable (3¾% and 8¾%) at $1,028,264 annually, including principal and interest, maturing from nineteen to twenty-five years	11,383,326	11,675,940
	$21,303,326	$23,070,940

The covenants of the most restrictive of these loan agreements provide, among other things, that while the loan remains unpaid the Company will maintain minimum working capital of $12,500,000 and that the aggregate after January 31, 1970, of payments of dividends (other than dividends payable in capital stock of the Company and cash dividends on Preferred Stock) and purchases of Common Stock will not exceed the sum of $4,000,000 plus the amount of earnings accumulated after January 31, 1970. The amount of earnings retained for use in the business and unrestricted by these provisions was $33,163,000 at January 31, 1976. Fixed assets with a net book value of approximately $13,230,000 are mortgaged by these agreements.

Note E—Pension Plans

Strawbridge & Clothier Employees Retirement Benefit Plan is noncontributory and provides for payment of pension benefits under specified conditions to eligible employees who retire with fifteen years of credited service. The Company is drafting revisions to the Plan to

conform with the requirements of the Employee Retirement Income Security Act of 1974. The cost effects of revisions are not anticipated to be significant. It is the Company's policy to fund annual pension accruals.

In addition, the Company has entered into employment contracts with certain key executives under a Deferred Compensation Plan which provides for payment of specified benefits upon disability, death, or retirement. Since the adoption of the Plan, the Company has made an annual charge to expense in an amount considered adequate to cover the cost of such benefits.

The total expense under these Plans included amortization of past service costs of the Retirement Benefit Plan over forty years. At February 1, 1975, the latest valuation date, the actuarially computed value of pension benefits, which were not funded and which were expected to become payable to former employees who have retired and to present employees who are expected to receive pension benefits upon retirement, exceeded the fund assets and balance sheet accruals by approximately $12,400,000 at that date.

Note F—Capital Stock

Sinking fund provisions of the $5 Cumulative Preferred Stock require that on April 1 of each year, the Company shall redeem shares of such class of stock in an amount of par value equal to two percent of the greatest amount at any time outstanding after February 1, 1948, and prior to the date of such redemption. In compliance with such provisions, 2,183 and 1,990 shares of the $5 Cumulative Preferred Stock were redeemed on April 1 and retired April 23, 1975, and June 26, 1974, respectively. Dividends on the $5 Cumulative Preferred Stock have been paid to January 1, 1976, a dividend date.

During 1974, the Company increased its authorized Common Stock, par value $5 per share, from 1,500,000 shares to 2,000,000 shares.

Earnings per share for the year ended February 1, 1975, has been restated for the stock dividend paid April 10, 1975.

Note G—Taxes on Income

The components of deferred income tax expense result from the following timing differences:

	1975	1974
Depreciation	$ 302,000	$467,000
Installment sales	1,626,000	435,000
Pensions	379,000	57,000
Other	(167,000)	(92,000)
	$2,140,000	$867,000

A reconciliation of the effective income tax rate with the statutory federal income tax rate of 48% is as follows:

	1975	1974
Federal tax rate	48.0%	48.0%
State taxes, net of federal taxes	4.2	4.2
Investment tax credits, flow-through method	(1.0)	(1.3)
Other items	.1	(.4)
EFFECTIVE INCOME TAX RATE	51.3%	50.5%

The provision for federal income taxes has been reduced by investment tax credits aggregating $169,000 in 1975 and $154,000 in 1974, respectively. Federal income tax returns have been settled through 1971.

Note H—Leases

Total rental expense for all leases amounted to:

	Year Ended	
	January 31 1976	February 1 1975
Minimum rentals .	$3,632,983	$3,460,468
Contingent rentals	292,014	251,472
	$3,924,997	$3,711,940

In most instances, real estate taxes, insurance, and maintenance are paid by the lessee. Contingent rentals are based on a percentage of net sales at certain locations.

The future minimum rental commitments as of January 31, 1976, for all noncancelable leases (substantially financing leases) are as follows:

Fiscal Years:	Total	Buildings	Equipment
1976	$ 3,674,176	$ 3,278,416	$395,760
1977	3,590,200	3,273,458	316,742
1978	3,375,899	3,258,411	117,488
1979	3,258,273	3,258,273	
1980	3,253,176	3,253,176	
1981-1985	15,179,505	15,179,505	
1986-1990	11,405,620	11,405,620	
1991-1995	7,831,224	7,831,224	
1996 and later ...	7,497,043	7,497,043	

Most leases for real estate include options to renew for periods ranging from 5 to 50 years. There are options to purchase at the expiration of the initial term of the leases and at the expiration of specified option terms. There are no guarantees, related obligations, or restrictions in connection with the lease agreements.

The estimated present values of the net fixed minimum rental commitments for noncancelable financing leases included above are summarized below:

	As of	
Interest Rate Used	January 31 1976	February 1 1975
Real estate 3.5% to 8.68%	$34,335,513	$34,677,964
Equipment 10.5%	278,687	432,361
	$34,614,200	$35,110,325

The present values were computed after reducing total rental commitments by estimated amounts applicable to the payment of taxes and insurance.

If all financing leases had been capitalized, it is estimated that net earnings for the fiscal years ended January 31, 1976, and February 1, 1975, would have been reduced by $78,930 and $103,270, respectively. This computation assumes that the estimated present values were amortized on a straight-line basis over the terms of the leases including options expected to be exercised and that interest expense was accrued on the outstanding lease obligations at the rates shown above. The amounts included in the computation for depreciation of leased property and interest expense were $1,215,556 and $2,326,393 in the year ended January 31, 1976, and $1,197,089 and $2,326,170 in the year ended February 1, 1975.

Accountants' report

To the Shareholders of
Strawbridge & Clothier

We have examined the consolidated balance sheets of Strawbridge & Clothier and subsidiaries as of January 31, 1976, and February 1, 1975, and the related consolidated statements of operations, stockholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Strawbridge & Clothier and subsidiaries at January 31, 1976, and February 1, 1975, and the consolidated results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst

ERNST & ERNST

Philadelphia, Pennsylvania
March 27, 1976

Description of business

Strawbridge & Clothier operates general merchandise stores at its original location in downtown Philadelphia and at fifteen suburban locations in the surrounding Delaware Valley area of Pennsylvania and New Jersey, and Wilmington, Delaware. The main store in Philadelphia, and nine suburban stores carry most of the classes of merchandise usually offered by department stores. All except two of the suburban department stores are located in shopping centers. Under the name CLOVER, the company also operates three self-service stores in New Jersey and three in Pennsylvania. These stores offer a broad range of general merchandise, exclusive of furniture and major appliances, and at four of the locations operate adjacent to a food supermarket.

Sales of soft goods, including men's, women's and children's wearing apparel and accessories, accounted for a share of total sales ranging between 57% and 59% in the most recent five fiscal years. Sales of smallwares, home furnishings and hard goods were 34% to 37% during the same period, and sales of leased departments, restaurants and workrooms accounted for the remaining 6% to 7% of total sales.

Ten year summary of operations

($ in thousands, except for per share data)

	1975
OPERATING RESULTS	
Net Sales	$239,829
Cost of Sales	171,727
Interest Expense	2,062
Earnings Before Income Taxes and Extraordinary Items	18,144
Federal and State Income Taxes	9,324
Net Earnings ([2])	8,820
Cash Dividends:	
Preferred Stock	185
Common Stock	1,824
Stock Dividends on Common Stock	5%
OTHER OPERATING DATA	
Depreciation	$ 4,165
Rent	3,925
Taxes Other Than Income Taxes	6,795
PER SHARE OF COMMON STOCK([3])	
Net Earnings([2])	$ 5.68
Cash Dividends	1.20
Book Value	55.68
FINANCIAL DATA	
Working Capital	$ 59,253
Property, Fixtures and Equipment—Net	57,396
Long-Term Debt	21,303
Common Stock Equity	84,648
Number of Common Shares Outstanding (thousands)	1,520
Square Feet of Store Space (thousands)	3,386

([1]) 53 Week Fiscal Year.

([2]) Includes after tax effect of Extraordinary Items: 1971 ($4)—Per Share ($.00); 1970 $351—Per Share $.25.

([3]) Calculated on the number of shares outstanding at January 31, 1976 (Net Earnings and Book Value give recognition to the dividend requirements of the Preferred Stock).

1974	1973	1972(1)	1971	1970	1969	1968	1967(1)	1966
$226,438	$212,252	$186,712	$163,606	$145,001	$142,542	$135,726	$124,527	$118,563
165,775	153,075	133,496	116,519	102,845	101,349	96,399	89,690	85,611
2,837	2,341	2,165	2,298	1,398	957	701	646	704
12,195	14,009	13,333	11,896	10,784	12,411	12,024	10,559	9,456
6,164	6,970	6,892	6,327	5,710	6,740	6,375	5,295	4,590
6,031	7,039	6,441	5,565	5,425	5,671	5,649	5,264	4,866
197	210	224	239	245	250	261	268	282
1,737	1,654	1,575	1,530	1,485	1,391	1,322	1,236	1,177
5%	5%	3%	3%	5%	7%	7%	5%	5%
$ 3,998	$ 3,830	$ 3,315	$ 3,097	$ 2,737	$ 2,325	$ 2,003	$ 1,778	$ 1,676
3,712	3,584	3,028	2,716	2,484	2,465	2,254	2,093	1,989
6,094	5,838	5,038	4,433	3,566	3,110	2,625	2,494	2,424
$ 3.84	$ 4.49	$ 4.09	$ 3.50	$ 3.41	$ 3.57	$ 3.54	$ 3.29	$ 3.02
1.14	1.09	1.04	1.01	.98	.92	.87	.81	.77
51.18	48.47	45.05	41.98	39.47	37.02	34.35	31.66	29.19
$ 51,869	$ 47,508	$ 47,266	$ 46,818	$ 42,290	$ 35,573	$ 32,540	$ 32,615	$ 29,317
58,776	59,862	55,028	50,025	47,787	38,375	29,919	26,061	26,548
23,071	24,261	25,438	26,061	23,224	13,274	5,644	5,943	5,934
77,804	73,677	68,486	63,822	59,997	56,279	52,221	48,134	44,370
1,448	1,379	1,313	1,275	1,238	1,179	1,102	1,030	981
3,386	3,358	2,991	2,807	2,611	2,367	2,367	2,138	2,138

Management's Discussion and Analysis of the Summary of Operations

Net sales of the company increased by 5.9% in 1975 over 1974 and by 6.7% in 1974 over 1973. Sales and earnings on a quarterly basis for 1975 and 1974 are shown in the supplementary financial data below. Sales increases in the first quarter of 1975 were limited by an early Easter and a ten day transit strike in Philadelphia in March. In subsequent quarters sales increases improved with the strengthening of the economy, particularly in the final quarter.

Earnings in 1975 increased by 46.3% over 1974 due to a better control of inventories and expenses together with substantially improved operating results in the Clover Division. In addition, interest expense in 1975 was significantly lower than in 1974 as a result of decreased short term borrowing at lower interest rates.

In 1974, merchandise, communication, utility, advertising and federal and state payroll tax costs increased disproportionately. These added costs together with an increase in bad debt and interest expense caused a decline in earnings of 14.3% in 1974 relative to 1973.

Sales and Earnings by Quarter

	Net Sales		Net Earnings(1)		Earnings Per Share	
	1975	1974	1975	1974	1975	1974
First Quarter	$47,992	$47,634	$ 509	$ 792	$ .30	$ .49
Second Quarter	52,803	50,666	1,175	692	.74	.42
Third Quarter	56,273	53,015	1,938	1,056	1.25	.66
Fourth Quarter	82,761	75,123	5,198	3,491	3.39	2.27

(1) *Earnings Per Share are calculated on the number of shares outstanding at January 31, 1976.*

Market and Dividend Information

The Company's Common Stock is traded on the over-the-counter market. The following table indicates the range of bid and asked quotations for the stock by quarter, and the dividends paid by quarter during the last two fiscal years, adjusted for the 5% stock dividend paid in April 1975.

	Range of Bid and Asked Quotations				Dividends Per Share	
	1975		1974		1975	1974
First Quarter	$18	$23½	$21	$28½	$.30	$.2857
Second Quarter	21½	26½	21	26½	.30	.2857
Third Quarter	19	24½	13½	24½	.30	.2857
Fourth Quarter	20½	26½	15½	19½	.30	.2857

Strawbridge & Clothier

801 Market St. Philadelphia, Pennsylvania 19105

Department store division

Philadelphia Store
Philadelphia, Pennsylvania
Opened 1862

Ardmore Store
Montgomery County, Pennsylvania
Opened 1930

Jenkintown Store
Montgomery County, Pennsylvania
Opened 1931

Wilmington Store
New Castle County, Delaware
Opened 1952

Cherry Hill Mall Store
Camden County, New Jersey
Opened 1961

Springfield Store
Delaware County, Pennsylvania
Opened 1964

Plymouth Meeting Mall Store
Montgomery County, Pennsylvania
Opened 1966

Neshaminy Mall Store
Bucks County, Pennsylvania
Opened 1968

Echelon Mall Store
Camden County, New Jersey
Opened 1970

Exton Mall Store
Chester County, Pennsylvania
Opened 1973

Cinnaminson Home Furnishings
Clearance Center
Burlington County, New Jersey
Opened 1974

Clover division

Marlton Store
Camden County, New Jersey
Opened 1971

Blackwood Store
Camden County, New Jersey
Opened 1971

Cinnaminson Store
Burlington County, New Jersey
Opened 1972

Morrisville Store
Bucks County, Pennsylvania
Opened 1972

Center Square Store
Montgomery County, Pennsylvania
Opened 1973

Springfield Store
Delaware County, Pennsylvania
Opened 1973

Westmont Plaza Store
Camden County, New Jersey
Opens Fall 1976

Annual meeting

The Annual Meeting of the shareholders of Strawbridge & Clothier will be held on Wednesday, May 26 at 12:00 noon on the 19th floor of the Penn Mutual Life Insurance Company building at 510 Walnut Street, Phila., Pa.

Transfer agents

For the Common Stock:
The Philadelphia National Bank
Phila., Pa. 19101

For the Preferred Stock:
Girard Trust Bank
Phila., Pa. 19101